Social Progress through Industrial Development

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Attacking Poverty

Building Solidarity

Creating Jobs

Industrialization is a dynamic instrument of growth essential to rapid economic and social development, in particular of developing countries, to the improvement of living standards and the quality of life of the peoples in all countries, and to the introduction of an equitable economic and social order.

Constitution of the United Nations Industrial Development Organization (UNIDO)
8 April 1979, Vienna, Austria

Third World Industrialization

Global industrialization is one of the most important vehicles for creating and transferring knowledge and information, access to which is indispensable for sustainable human development and social progress.

While developed countries have led the way, rapid industrial growth has also been achieved in many developing countries during the past decades. For example:

♦ Developing countries' share in world manufacturing value added (MVA) has slowly but steadily increased, rising from 12.6 per cent in 1975 to 16.7 per cent in 1992. These figures do not include China, a country which in recent years has increased its share in world MVA at an extraordinarily rapid pace — from 5.5 per cent in 1985 to 10.5 per cent in 1992.

♦ Overall employment in the organized manufacturing sector in developing countries, including China, increased from 43.2 million in 1970 to 78.2 million in 1992. This excludes micro and informal industrial activities and indirect employment created.

♦ Small industrial enterprises typically account for some three quarters of industrial employment in developing countries.

♦ In Latin America and the Caribbean, manufacturing employment rose from 7.6 million to 11.7 million, while almost doubling in the Indian sub-continent, from 5.5 million to 9.8 million, during 1970-1992. The Asia and Pacific region recorded a substantial increase in manufacturing employment during the same period, almost tripling from 4.7 million to 12.5 million.

♦ The dramatic increase in manufacturing employment in Asia and Latin America can be attributed to the emergence of a number of newly industrializing economies, one of which, Mexico, has recently become a member of the Organisation for Economic Cooperation and Development (OECD).

♦ In tropical Africa, which encompasses the majority of least developed countries (LDCs), half of which rank among the lowest on the Human Development Index, manufacturing employment doubled from 1 million in 1970 to 2 million in 1992.

Along with the rest of the world, developing countries have experienced a transformation of their economic structures, with the share of agriculture declining sharply and that of manufacturing and the service sectors rising rapidly.

♦ By 1990, the share of manufacturing value added in gross domestic product (GDP) exceeded the 20 per cent mark in a number of developing countries, *inter alia*, Zambia (43 per cent), China (38 per cent), Zimbabwe (30 per cent), Thailand and Brazil (26 per cent each), Philippines (24 per cent), Indonesia and Venezuela (20 per cent each).

♦ In contrast, the share of manufacturing value added in gross domestic product was below 10 per cent in developing countries such as Ethiopia (10 per cent), Sierra Leone (10 per cent), Nepal (5 per cent), Uganda (4 per cent), Guinea (4 per cent) and Niger (1 per cent).

Issues

Sharing the benefits: Equitable distribution remains an issue. Although industrial growth has been accompanied by improvements in key indicators of social progress such as literacy, health and standards of living, the fruits of

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this growth have yet to reach broader segments of the population, especially in rural areas, where the majority of the poor live.

The roots of poverty are often traced to uneven resource endowments and income distribution, disadvantages in location, skewed distribution of physical and social infrastructure and political neglect. The majority of the poor throughout the developing world are concentrated in rural areas and are usually landless and small-scale farmers. At the same time, urban poverty is increasing due to accelerating rural-urban migration, population growth and inadequate industrial structures, especially in Africa, Asia and Latin America.

Sustainable social progress requires building up productive industrial capacities, a process of fundamental importance to generating economic growth, determining its distribution and thus supporting social change and transformation in any economy.

It is widely acknowledged today that neither national fiscal adjustments nor external concessional aid flows alone can furnish resources sufficient to solve overriding social problems within an acceptable time frame.

How can industrial development become more "people-oriented", ensuring the overall welfare of society and alleviating poverty? Only through expansion of the productive sectors, largely through the efforts of the countries themselves, can long-term solutions be found, with the private sector increasingly assuming a lead role in development of the manufacturing industry.

Industry and Employment

Industry as an engine of growth: Industry plays a pivotal role in the social transformation of societies. The industrial sector generates productive employment, satisfies the consumption needs of growing populations and provides basic necessities for improved living standards. There is a strong positive correlation between the level of human development and the degree of industrialization.

Even today, in most developing countries, agricultural activities still constitute the predominant source of livelihood, typically accounting for one third of GDP. However, the gradual transformation of agrarian into industrial economies is proving to be one of the most powerful mechanisms for social progress and for generating productive and paid employment, thus combating poverty.

The expansion of industrial activities helps to meet basic human needs such as those for food, shelter and clothing. In addition, industry also supplies an array of health-related products, including pharmaceutical and medical products, which increase life expectancy and reduce infant mortality.

Further, the infrastructural base for socio-economic progress is strengthened by the industrial sector through inputs to the construction of schools, hospitals, universities, bridges and roads, electricity generation and distribution, telecommunication networks and related facilities.

However, as policy makers in developing countries pursue the goal of development, they are faced not only with growing opportunities but also with the challenge of synchronizing social objectives with the demands of international competition.

Industry, employment and income generation: Industrialization has both a direct and an indirect impact on employment. Together with agriculture and services, industry is a major employer in both rural and urban areas. For example, the growth of employment in formal manufacturing has been remarkable:

- **China:** Manufacturing sector employment rose from around 20 million in 1970 to 35.2 million in 1992;
- **Brazil:** The number of persons employed in formal manufacturing activities rose from 2 million in 1970 to 5.1 million in 1992;
- **Mexico:** formal manufacturing sector employment figures increased from 1.7 million to 2.1 million over the same period.

The generation of jobs and income stems not only from the direct effects of industrialization but, perhaps even more importantly in developing countries, from indirect linkages with agriculture and services.

Moreover, the rapid technological progress and intense competitive pressures characteristic of the industrial sector are major stimuli for upgrading the skills of the labour force.

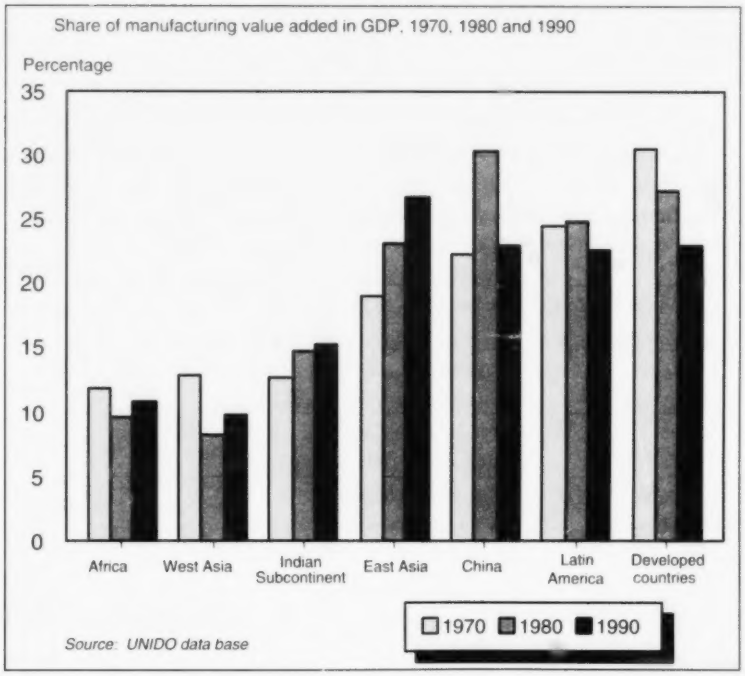
Targeting small enterprises: The promotion of small industrial enterprises creates the nuclei for future industrial development, strengthens links with larger enterprises and generates economic wealth and social progress at the

grassroots level. For example, in the agro-industrial sector, small-scale activities create jobs and income, particularly for women, by increasing the use and value of agricultural produce such as vegetables, fruits, grains, fibres and leather, and by supplying key inputs and services.

However, gearing industrial strategies and development patterns to support micro-enterprises does not happen automatically; it is a conscious choice which involves creating gainful employment opportunities for vulnerable population groups, preserving the natural resource base on which much of industry itself depends and establishing resilient industrial structures.

The informal sector: The role of the informal sector as a residual absorber of rural-urban migrants warrants special attention considering that informal manufacturing activities account for an estimated 80 per cent of all new jobs created by the manufacturing sector. For example, in Egypt, informal manufacturing activities account for around 75 per cent of MVA and over 85 per cent of employment generated by the private sector.

The informal sector is not only a major source of income and employment for a large portion of the labour force, but also a breeding ground for entrepreneurial development that deserves support to eventually formalize it.



Industry and Poverty Alleviation

Industry-agriculture linkages: In the rural context, close linkages between agriculture and manufacturing can contribute significantly to poverty alleviation. Given the prevalence of rural poverty at early stages of development and the potential of agriculture in terms of output and employment, agriculture-manufacturing linkages can boost agricultural productivity and raise rural income, hence alleviating rural poverty. Industry also provides impetus for agricultural growth and support for small-scale food-processing household activities.

Industry-services linkages: In an urban framework, manufacturing also plays a catalytic role, expanding income opportunities in the service sector through demand for such services as accounting, finance, marketing, management consultancy, engineering and infrastructural services.

Regional industrial development: Promoting regional industrial development, as well as encouraging local entrepreneurship and grassroots initiatives, constitutes a crucial dimension of rural and urban poverty alleviation schemes. Many countries actively promote industries in their more backward regions, thus reducing wide income disparities.

Particularly in Latin America, such disparities between regions within countries often result in social conflict, fueling rural-urban migration. Given the already existing difficulties in major industrial agglomerations, a more even regional distribution could also increase economic efficiency.

Poverty alleviation and environmental protection: In developing countries, a vicious circle of poverty leading to environmental degradation exists due to substandard living conditions, which, in turn, further impoverish people by destroying the natural resource base. Under such conditions, the quality of life can be enhanced through sound development policies.

Clean or low-waste technologies not only reduce pollution; they also reduce energy and raw material consumption. Examples of relevant UNIDO projects include the reduction of dyestuffs and chemicals in the textiles industry, new hides preservation and finishing techniques in the leather industry, as well as the development of environmentally friendly pesticides.

The resultant savings, combined with external assistance, can more than offset the higher initial investment cost. Specifically, for many rural-based small enterprises in Africa and Asia, increasing use of biomass resources to meet energy requirements offers a viable alternative to fuel-wood and could help to significantly reduce the pressure on forest resources.

Industry and Social Integration

Equal opportunities: The economic integration of all segments of the population, including disadvantaged groups from different social and economic backgrounds, is a major dimension of socially oriented industrial policy. Appropriate macroeconomic policies can offset inequalities that would otherwise widen at the early stages of development. Equality of opportunity for all within a framework of respect for human rights is the key element in attaining full social integration.

Women in industrial development: Social integration requires that women be fully accepted as partners and recognized as contributing directly to the cohesion of the social fabric. A correlation exists between high participation of women in the formal industrial sector and the attainment of high levels of social and human development.

Post-emergency assistance: Meeting the needs of an increasing number of refugees, displaced persons and victims of natural and man-made disasters presents a pressing challenge.

In war-affected areas, the damage and destruction to industrial production and service facilities, as well as to housing and civil engineering structures, are well known. The scope of emergency aid programmes providing food supplies, health services and shelter, as well as the distribution of goods and services and the relocation of people, can be reduced, and sustained socio-economic development of the community fostered, in direct proportion to the speed with which local industries are revived.

Therefore, the sooner local industry can meet fundamental needs, ranging from basic food and medicines to building materials and tools, the sooner financial assistance provided by the international community can be effectively utilized.

Free trade and global markets: The establishment of the World Trade Organization (WTO) in January 1995, following the protracted but ultimately successful conclusion of the Uruguay Round, will enhance the globalization of markets, ushering in an era of unprecedented international trade flows.

As national boundaries lose their economic significance in the global marketplace, cross-border financial flows are increasing apace, facilitated by strategic North-South alliances and joint ventures. As a result, organizational boundaries are becoming increasingly intertwined as investment orientation turns towards countries with a high level of social stability, as well as a large human resource base and skill-development potential.

Investing in people: Human resource development is an important precondition for, and result of, industrialization. Education serves as a capacity-builder for the development, transfer and absorption of technology.

The competitiveness of industrial enterprises is often based on their ability to respond more rapidly and efficiently than their competitors. Core knowledge and skills are invaluable assets in developing new processes, products and services and new business alliances.

However, in view of mounting international competitive pressures, the survival of industrial enterprises is becoming increasingly dependent upon their ability to utilize the full potential of people.

It follows that enterprises will invest more in their employees, developing capabilities through ongoing education and "re-skilling" in such vital areas as as communications, negotiations, creativity, motivation, risk-taking, commitment, empowerment and teamwork.

Thus, increasing industrial competition calls for management practices that take into account the full development potential of individuals, increasing their ability to achieve social integration which reaches beyond their work environment to societies as a whole.

The Role of UNIDO

UNIDO became a specialized agency of the UN system in 1985 with a mandate to promote and accelerate industrial development in developing countries, as well as to foster greater industrial cooperation. UNIDO cooperates with other UN agencies, particularly FAO and ILO, in supporting developing countries' quest for social progress through employment generation, poverty alleviation and social integration.

Following its reorganization in early 1994, UNIDO's technical cooperation activities and promotional and advisory services are now geared towards the promotion of five overall long-term development objectives for developing countries:

- Industrial and technological growth and competitiveness;
- Development of human resources for industry;
- Equitable development through industrial development;
- Environmentally sustainable industrial development; and
- International cooperation in industrial investment and technology.

UNIDO supports equitable social development through a number of programmes, including training and the promotion of small and medium enterprises, enhancement of rural industrial development, integration of women in development, creation and adaptation of technologies to suit local needs and resources and promotion of industries directly affecting rural areas (e.g., agro-industries, fish processing, wood products, textiles, building materials for low-cost housing, sewage, sanitation and pharmaceuticals).

UNIDO also supports women, *inter alia*, by according high priority to the development of small-scale industries to integrate them into the industrialization process and enhance their welfare. For example, UNIDO's comprehensive training programmes in textiles and food processing in Africa upgrade entrepreneurial and marketing skills, especially of women. Similar UNIDO programmes are being implemented in other regions. For example, in Nepal, UNIDO assists a women's cooperative enterprise with technology transfer and adaptation, quality control, and marketing of handicrafts and processed food products.

Recently, greater importance is being attached to technical cooperation programmes targeted at the vulnerable segments of society as beneficiaries to achieve the social goals of job creation, poverty alleviation and social integration. For example:

- **Nigeria:** An agro-industry project in Nigeria aims at strengthening the institutional framework for enhancing the status of the rural poor. Project activities are categorized into community development, artisanal fisheries development, agricultural mechanization, rural non-farm development and income generation, with a special focus on women in agriculture.
- **Uganda:** A small and rural industries project in Uganda's Mbale and Mbarara Districts was implemented in close cooperation with local institutions and NGOs to develop an appropriate mechanism for the provision of financing, training and extension services.
- **Central America:** A training programme for women entrepreneurs in food processing in Central America has enhanced the skills required for a more efficient integration of women into the industrialization process.
- **Croatia:** A UNIDO project in Croatia is focusing on emergency assistance to war victims through provision of community shelters and 2,000 basic housing units.
- **Viet Nam:** The establishment of an experimental production unit in Viet Nam will provide training facilities and enhance technical knowledge, especially for women, in manufacturing enzymes, hormones and other bioactive substances.

Future Priorities

All UNIDO programmes have the same *leitmotif*—that of supporting industrial development as a critical means of raising income, increasing employment and improving living standards for all within the framework of sustainable social development.

For further reading:

Industry and Development: Global Report 1993/94 (UNIDO publication, Sales No. 93.III.E.4). Available in English and French.

Intersectoral Linkages and their Impact on Rural Poverty Alleviation: A Social Accounting Matrix Approach (Vienna, 1993). Available in English only.

Participation of Women in Manufacturing: Patterns, Determinants and Future Trends, Regional Analysis, ESCAP Region (Vienna, 1994). Available in English only.

Poverty Alleviation and Rural Small-Scale Industries. (Vienna, 1993). Available in English and French.

For further information, please contact:
Chief, Public Information
United Nations Industrial Development Organization (UNIDO)
Vienna International Centre
P.O. Box 300
A-1400 Vienna, Austria
Tel. (431) 21131 5021/5022
Fax: (431) 2092669

Director, UNIDO Office
1 United Nations Plaza, DC1-1110
New York, N. Y. 10017
Tel. (212) 963-6890
Fax: (212) 963-7904

Director, UNIDO Office
Villa les Feuillantines
Palais des Nations CH-1211
Geneva 10, Switzerland
Tel. (4122) 9173373
Fax: (4122) 9170059

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